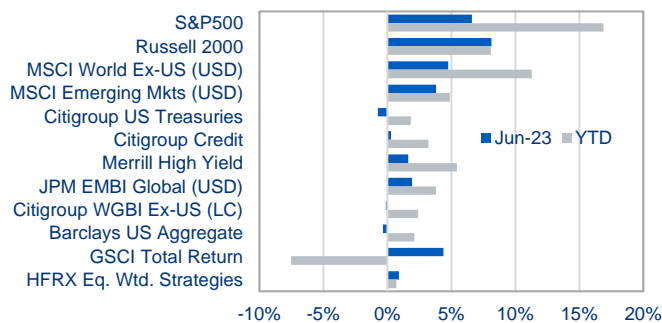


Global Market Review

Global equity markets surged higher in June, adding to already large gains. So far this year, tech stocks have led other sectors by a wide margin, fueled in part by speculation in firms thought likely to benefit from advances in artificial intelligence. The U.S. rally has been particularly strong and especially narrowly based. Global bond markets were mixed in June, with U.S. Treasuries and investment grade credit losing ground and high yield and non-U.S. bond markets extending gains. Despite the Fed's decision to forego a rate increase in June, it remains hawkish as inflation, while falling, is still well above its target. Other major central banks are also warning of the need for further rate hikes. Bond markets, in contrast, appear less concerned that inflationary pressures may become entrenched. Long-term U.S. Treasury yields are little changed this year, and the deeply inverted U.S. Treasury yield curve continues to point to a coming recession.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



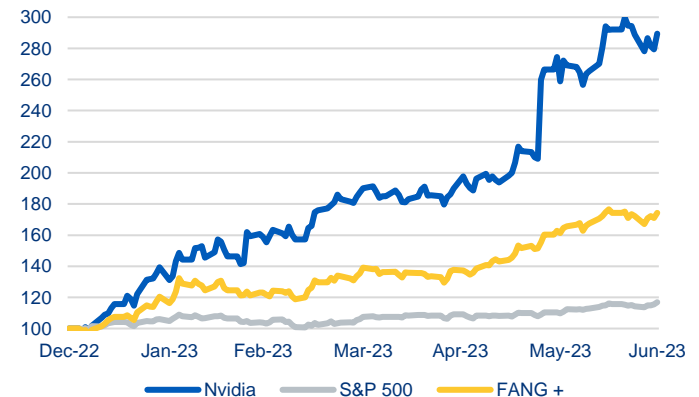
Global equity markets surged higher in June.

Breadthless Rally

The S&P 500 jumped 6.6% in June, bringing its gain so far this year to 16.9%. Despite this year's market surge, equities have still not fully recovered the losses of 2022. The S&P 500 index remains 6.6% below its January 2022 level. A small number of large cap growth stocks in the tech sector has been the dominant driver of this year's rally. As illustrated in Exhibit 1, the FANG+ index comprising these tech favorites has led the broader market by a wide margin. Speculation over the transformative potential of artificial intelligence (AI) has been a powerful propellant of stock prices. For example, the share price of Nvidia (NVDA), a firm thought to be well placed to profit from AI, has nearly tripled. The market rally has been particularly top-heavy. The 10 largest companies of the S&P500 account for nearly all of the gains of the index while the smaller 490 have languished. This dynamic has contributed to further market concentration. The market cap of the 10 largest firms in the S&P 500 relative to the total is at high levels, and well above those seen during the 2000-01 tech bubble.

Exhibit 1. Large Cap Tech Shares Dominate Market Gains

Source: Bloomberg. Index. January 1, 2023 = 100.



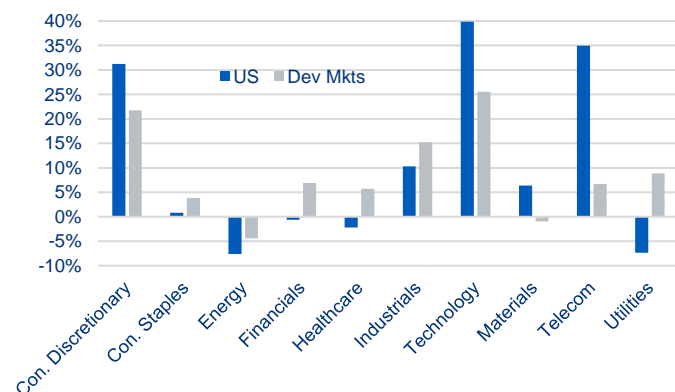
Reflecting the tech-driven rally, growth stocks have outperformed value by a wide margin in 2023, gaining 28.1% compared with the 5% return generated by value stocks. Across sectors, tech and telecom shares have led all others, rising 40% and 35%, respectively. Energy shares and utilities, in contrast, have lagged the broader market losing 7.6% and 7.4%, respectively.

Global Equity Market Rally Also Led by Tech Stocks

The MSCI World ex-U.S. index of advanced equity markets rose 4.8% in June, bringing its total gain this year to 11.3%. The rally in June was broadly based across European and Japanese markets, which rose by 4.8% and 4.0%, respectively. So far this year, European equities are up 13.6%, while the Japanese market has gained 11.7%. European markets have risen despite signs of slowing economic output, and the ECB's hawkish stance. The gains in Japan have been helped by a rising yen, relatively loose monetary conditions, and signs that corporate governance reform may boost profitability. Like the U.S., the rally in advanced economy bourses has been driven mainly by the tech sector (Exhibit 2).

Exhibit 2. Tech Stocks Lead Global Equity Markets Higher

Source: Bloomberg. Calendar year to date returns in percent.



Emerging market equities also enjoyed strong gains in June. The MSCI EM index rose 3.8% to bring its gain for the year to 4.9%. Latin American bourses, which are up 14.6% so far this year, account for all of the index gains in 2023. Emerging equity markets in the EMEA region, in contrast, have lost ground.

Central Bankers' Trilemma

The ongoing round of global central bank tightening has been among the most widespread and aggressive in decades. The BIS reports that fully 95% of global central banks are tightening monetary conditions. Major central banks have engaged in successive rate hikes that have increased policy rates to multi-decade highs and taken steps to tighten liquidity by reducing their asset holdings. Nevertheless, inflation, though falling, remains well above policy targets. At the same time, financial markets appear fragile. Global public and private debt levels are high. Asset prices and in particular property prices appear stretched and subject to reversion. And the long period of easy money encouraged speculative positions and risk-taking that may prove unsustainable in a high interest rate environment. The combination of high debt levels, elevated property prices, and widespread risk-taking predicted on low rates increases the risk that central bank tightening will trigger a banking crisis. This risk is compounded by the possibility that tighter monetary conditions will precipitate a recession. Indeed, economic activity across major economies already appears to be slowing. Advanced economy central banks thus face a difficult

trilemma: how to restore price stability, maintain financial market stability, and avoid plunging their economies into recession. Much hinges on their ability to strike a delicate balance using blunt instruments in a highly uncertain environment.

Sanguine Bond Markets

The Fed's successive rate hikes and expectations of more hikes to come have pushed 3-month U.S. Treasury bill yields ever higher. Yields on the 10-year U.S. Treasury note, in contrast, have remained stable and are little changed so far this year (Exhibit 3). Reflecting this dynamic, the yield curve has become increasingly inverted as reflected in the widening gap between 3-month and 10-year yields. Bond markets are discounting that the Fed will ultimately manage to quell inflation but at the expense of a recession.

Reflecting these yield trends, the U.S. Treasury market has managed a small gain of 1.8% so far in 2023, largely driven by the 3.6% return of the 10+ year segment of the market. U.S. investment grade bonds are up 2.1% this year, while the high yield sector has gained 5.5%.

Exhibit 3. S-T Yields Rise While L-T Yields Remain Stable

Source: Bloomberg. Yields in % (LHS). Index 1/1/2022 = 100 (RHS).



Outside of the U.S., the WGBI ex-U.S. index of advanced sovereign bonds is up a modest 1.5% in the first half of the year, largely reflecting the 4.5% gain in European bond markets. The EMBI index of emerging market sovereign bonds is up 3.8% year to date.

Performance of Major Market Indices through 6-30-2023

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	6.6%	8.7%	16.9%	19.6%	14.6%	12.3%
Russell 2000	8.1%	5.2%	8.1%	12.3%	10.8%	4.2%
MSCI World Ex-US (USD)	4.8%	3.0%	11.3%	17.4%	9.3%	4.6%
MSCI Emerging Mkts (USD)	3.8%	0.9%	4.9%	1.7%	2.3%	0.9%
Citigroup US Treasuries	-0.7%	-1.4%	1.8%	-2.3%	-4.8%	0.4%
Citigroup Credit	0.3%	-0.3%	3.2%	1.6%	-3.4%	1.7%
Merrill High Yield	1.6%	1.6%	5.4%	8.9%	3.2%	3.2%
JPM EMBI Global (USD)	1.9%	1.5%	3.8%	6.8%	-2.7%	0.8%
Citigroup WGBI Ex-US (LC)	-0.1%	-0.3%	2.4%	-3.1%	-4.8%	-1.4%
Barclays US Aggregate	-0.4%	-0.8%	2.1%	-0.9%	-4.0%	0.8%
GSCI Total Return	4.4%	-2.7%	-7.5%	-14.2%	25.1%	2.8%
HFRX Eq. Wtd. Strategies	0.9%	0.5%	0.7%	2.1%	2.1%	1.2%